

Gulf of Mexico Exploration
Worldwide Exploration

RULES PROCESSING TEAM



**Marathon
Oil Company**

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APR 01 2005

April 1, 2005

Department of the Interior
Minerals Management Service
Attention: Rules Processing Team
381 Elden Street, Mail Stop 4024
Herndon, Virginia 20170-4817

Re: Comments on Minerals Management Service Proposal to Increase Base Rentals and the Use of Sliding Scale Rentals in the Gulf of Mexico (GOM) Lease Sales; 70 Federal Register 10111-10112 (March 2, 2005)

Marathon Oil Company (Marathon) appreciates the opportunity to respond to the Minerals Management Service (MMS) request for comments regarding the agency's consideration of a possible increase in base level rentals for all newly issued leases in the Gulf of Mexico (GOM) and the implementation of a sliding scale component for rentals on leases located in deepwater. Marathon is an active company in the Gulf of Mexico. We currently own interest in over 100 producing and non-producing leases in the Gulf of Mexico and, therefore, have a direct interest in this matter.

Increasing rental rates to adjust for inflation is reasonable and the concept of modifying base rental rates to compensate for changes in the economy are expected. MMS proposes to increase the base lease rentals in the Gulf from \$5.00 to \$6.25 per acre, in less than 200 meters, and from \$7.50 to \$9.50 per acre in water depths greater than 200 meters. These proposed increases represent a 25% and 26.67% respective increase over existing rates and are greater than the calculated inflation rate since the last rental increases. Accordingly, while we understand the justification for rental adjustments, smaller base increases to \$6/acre on the shelf and \$8.50/acre in the deepwater are recommended. The recommended base rates above would not be excessive and should not have an adverse impact on future leasing activity in the GOM.

In Marathon's view, the proposed sliding scale component for deepwater leases is excessive and would negatively impact future activities in the deepwater. The cost of holding an un-drilled GOM deepwater lease after acquisition for ten years would cost the lessee \$672,480.00, compared to the \$432,000.00 a lessee pays today, an increase of \$240,480.00 per lease. If implemented as proposed, lessees would experience a substantial increase in the cost to maintain their inventory of deepwater non-producing leases. MMS states that part of the justification for suggesting a sliding scale component for deepwater leases is to "encourage exploration drilling in deepwater areas earlier in the lease term." Marathon does not believe that increasing rental costs in the deepwater GOM will compel companies to expedite drilling decisions. Other major factors like

distance to infrastructure, commodity prices, costs and access to seismic data and drilling equipment are larger impact issues that will drive drilling decisions. Historically, lessees have attempted to purchase leases in deepwater areas where the greatest potential exists for commercial discoveries of oil and/or natural gas. In frontier areas, where there are few if any existing wells from which to derive important pre-drill data, purchasing a significant number of leases in any given geological trend gives lessees the ability to capture additional drilling opportunities if an initial exploration drilling is successful. If the cost of building these larger trend lease inventories becomes too great, the result may be fewer leases purchased and fewer wells drilled.

In summary, while adjusting rentals to compensate for changes in inflation may be reasonable and expected, Marathon suggests that implementing rental increases for deepwater leases beyond a reasonable fixed rate would penalize potential lessees and adversely impact deepwater exploration activities. Therefore, Marathon urges the MMS to eliminate any sliding scale rental component to deepwater leases and only adjust rental rates for shallow and deepwater leases at a fixed rental rate during the primary term as suggested.

Respectfully,



M. J. Koenig
Manager, Contracts and Negotiations
Worldwide Exploration, GOM

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